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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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Dear Senator Anderson:

Your letter of June 1, 1972, requested that we review the General Services Administration's (GSA's) handling of the sale of surplus zinc from the national stockpile. In subsequent discussions we agreed to (1) obtain information pertaining to policies and procedures for dealing with the large zinc producers, (2) determine if these policies and procedures differed from those for dealing with small zinc producers or buyers, and (3) look at the specific transactions pertaining to recent sales of zinc to T. L. Diamond and Company, Inc., and its affiliate, the Meadowbrook Corporation, and other companies.

BACKGROUND

On April 26, 1972, the Congress authorized the sale of 515,200 tons of surplus zinc stockpiled by the Government. After consultation with GSA the seven primary zinc producers (those that produce zinc from newly mined ores and concentrates) agreed to buy 440,000 tons of zinc. About 75,000 tons were set aside by GSA for other buyers. To be able to purchase zinc, buyers other than primary producers must be either (1) domestic producers of zinc in slab form from other than virgin material, (2) distributors or dealers in slab zinc that do not perform a manufacturing function, or (3) domestic consumers that buy slab zinc and produce zinc materials other than slab zinc.

To minimize disruptions in the zinc market, GSA conducted negotiations with the seven primary zinc producers in accordance with procedures established in 1963 by the Executive Stockpile Committee to the President. These procedures provided that stockpile disposals which could disrupt normal production and distribution should be negotiated with the producers of the material involved.

POLICIES AND PROCEDURES FOR DEALING WITH THE SEVEN PRIMARY PRODUCERS

GSA entered into identical contracts with each of the seven primary producers for sale of the surplus zinc. Each primary producer contracted to buy surplus zinc in proportion to its share of the total slab zinc produced in the United States.

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The price charged by the Government for the surplus zinc is the average delivered domestic price for prime western-grade zinc (a standard specification for processed zinc). If the primary producer ships the zinc to its customer from the Government stockpile without processing the zinc, the producer is charged the average price for the month of shipment. If the zinc is shipped to one of the producer's plants where it is either melted and recast or refined, the producer is charged the average price for the month following shipment. Under this pricing method, the price charged the producer should be the average price of the month in which the zinc probably would be ready for marketing.

Allowances are granted to offset costs that the companies buying the surplus zinc incur in remarketing the zinc. The following schedule shows the three categories of allowance available to primary producers--shipping directly, melting and casting, and refining--and the expenses considered in computing these allowances. A combination of these categories of allowances cannot be made, and the allowances are granted on the basis of certification of work performed.

Allowances on Surplus Zinc Purchased

<u>Expenses</u>	<u>Allowance per pound based on work performed</u>		
	<u>Shipping directly</u>	<u>Melting and casting</u>	<u>Refining</u>
Inbound handling	\$ -	\$.0010	\$.0010
Cleanup	.0010	-	-
Melting and casting	-	.0040	-
Refining	-	-	.0110
Packaging, warehousing, and outbound handling	-	.0020	.0020
Material processing loss	-	.0012	.0034
General, administrative, and selling expense	<u>.0051</u>	<u>.0068</u>	<u>.0085</u>
Total allowances	<u>\$.0061</u>	<u>\$.0150</u>	<u>\$.0259</u>

The primary producers are restricted to the price charged them by the Government when selling the surplus zinc; however, they are allowed to charge for special casting or alloying. If they sell their product for more than the price charged them, they must pay the Government the difference between the

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sales price and the market price for prime western-grade zinc. The companies should thus generally only recover their costs.

Surplus zinc is sold by the Government f.o.b. shipping point. A freight allowance is granted for shipment to the first destination point. An additional allowance based on a weighted average freight cost is given to a primary producer for shipping melted or refined zinc from its plant to a customer.

POLICIES AND PROCEDURES FOR
DEALING WITH OTHER BUYERS

The policies and procedures for dealing with buyers other than primary producers differ primarily in the following aspects.

1. Buyers that are not primary producers must certify that they are unable to secure zinc from their regular suppliers. In this way they are prevented from bypassing their regular suppliers and disrupting normal market operations. They are limited during any 30-day period to purchasing the greater of 1,000 tons or 10 percent of the balance of surplus zinc available under the 75,000 tons set aside.

2. Not all the allowances available to the primary producers are available to small buyers (producers, distributors, and consumers), as shown in the following schedule.

<u>Small buyer</u>	<u>Allowances</u>		
	<u>Shipping directly</u>	<u>Melting and casting</u>	<u>Refining</u>
Producer	Available	Available	Not available
Distributor	do.	Not available	Do.
Consumer	Partially avail- able	do.	Do.

The entire direct shipping allowance is available to distributors and producers, but consumers qualify for only the allowance for cleanup expenses. The reason for the difference is that producers and distributors are restricted to selling slab zinc shipped directly to their customers at the price charged them by the Government and can recover general, administrative, and selling expenses only through the allowance. Consumers, on the other hand, are not restricted in their selling price and therefore do not require an allowance for such expenses.

The melting and casting allowance is only available to producers because distributors and consumers do not perform such work.

The refining allowance is not available to buyers other than primary producers because, according to GSA officials, the only companies with adequate facilities to refine zinc are primary producers.

3. Although primary producers are paid a freight allowance for shipments from their plants to their customers on zinc either melted and recast or refined, there is no provision for other buyers who are melting and recasting to get this allowance. GSA officials maintained that the amount of freight allowance claimed by other buyers would be minimal and decided that the administrative costs to process and audit such claims would not be justified. To compensate for this, GSA does not require these buyers to refund the difference between their sales price and the amount charged them by the Government.

4. Although primary producers must pick up their entire quarterly purchase before the end of the quarter, other buyers are allowed 60 days from the date of sale to take delivery of the zinc.

TRANSACTIONS TO DATE ON SALE OF SURPLUS ZINC

We reviewed the files at GSA on sales of the surplus zinc to primary producers, T. L. Diamond and Company, Inc., and other buyers. We found that the primary producers purchased 76,400 tons through September 5, 1972, and that approximately 40 other buyers were buying zinc from the 75,000 tons set aside. Included in the files were claims for freight, cleanup, and melting allowances, but there were no claims for the refining allowance. In the case of T. L. Diamond and Company, Inc., there have been two purchases of 750 tons each. The zinc is being shipped to the Meadowbrook Corporation, and T. L. Diamond is getting the allowance of a distributor.

In summary, our review of the policies and procedures on the sale of the surplus zinc has revealed no information which would lead us to believe that the primary producers will have significant advantages over other buyers if the program is carried out as contemplated by GSA. The policies and procedures for dealing with primary producers and those for dealing with other buyers appear comparable. Our future reviews

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of the national stockpile will include an evaluation of GSA's planned audits of the zinc contractors and a further examination of the transactions pertaining to the sale of surplus zinc.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James B. Hunt".

Comptroller General
of the United States

The Honorable Clinton P. Anderson
United States Senate